

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON MIDVAAL LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Midvaal Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

Sale of land

8. As disclosed in note 30 to the financial statements the municipality is a defendant in a land-claim transaction. The outcome of this lawsuit cannot be determined at present and no provision was made for any liability that might result.

Matters important to the users of the financial statements

Provision for Doubtful debts

9. Owing to specific indicators of impairment in the municipality's accounts receivable it was necessary to increase the doubtful debtor's provision by R23 222 088 for the 2009/10 year.

Material losses

10. As disclosed in note 23 to the financial statements, material losses to the amount of R10 554 038 and R4 231 775 were incurred as a result of electricity and water losses respectively.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on page **xx** to **xx** does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, and any other specific enabling legislation or legislation governing the mandate and operational activities of the entity and financial management (internal control).

Predetermined objectives

12. There were no material findings on the report on predetermined objectives.

Compliance with laws and regulations**Municipal Finance Management Act, 2003****Financial statements were subject to material misstatements**

13. Contrary to the requirements of section 122 (1) of the MFMA, the municipality did not prepare financial statements in accordance with the legislative requirements as the financial statements submitted for audit on 30 August 2010 did not fairly present the state of affairs of the municipality as there was a material amendment made to the provision for bad debts arising from the audit.

Environmental Conservation Amendment Act, 2003(Act No 50)

14. Contrary to the requirements of section 20(1) of the Environmental Conservation Amendment Act, 2003(Act No 50 of 2003) as amended by Government Gazette No 26023 of 18 February 2004 the municipality operated a landfill site without obtaining the necessary licence.

Basic Conditions of employment Act, 1997 (Act No 75)

15. Contrary to the requirements of the Basic Conditions of Employment Act, 1997(Act No 75 of 1997) employees worked overtime in excess of the maximum hours stipulated.

INTERNAL CONTROL

16. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purposes of

expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

Leadership

- The accounting officer did not adequately exercise oversight with regards to compliance with laws and regulations as corrective actions designed by the municipal manager to resolve the licensing of the landfill site and ensuring adherence to internal policies and procedures for overtime worked at essential service delivery departments were not fully implemented at 30 June 2010, resulting in non-compliance with applicable legislation.

Financial and performance management

- The financial statements were subject to material amendments resulting from the audit.
- The financial statements were not adequately reviewed for completeness and accuracy prior to submission for audit.

Governance

- No matters to report.

Auditor-General

Johannesburg

29 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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